

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, August 30, 2004

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUE-2000-00550

Ex Parte: In the matter concerning the application of Appalachian Power Company d/b/a American Electric Power-Virginia for approval of a plan to transfer functional and operational control of certain transmission facilities to a regional transmission entity

ORDER GRANTING APPROVAL

On December 19, 2002, Appalachian Power Company d/b/a American Electric Power-Virginia ("AEP-VA" or "Company") filed with the State Corporation Commission ("Commission") a Substitute Application ("Application") requesting approval to transfer functional and operational control of its transmission facilities to a regional transmission entity ("RTE"). The application was not complete until supplemental filings were made by AEP-VA in April 2003.

Sections 56-577 and 56-579 of the Virginia Electric Utility Restructuring Act ("Restructuring Act"), Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia ("Code"), require Virginia's incumbent electric utilities to file applications with, and to seek approval from, the Commission to transfer the management and control of their transmission assets to RTEs.

Section 56-579 A 1 of the Restructuring Act was amended by the 2003 General Assembly to delay transfers to RTEs until July 1, 2004, and to require such transfers by January 1, 2005, subject to Commission approval. Section 56-579 A 1, as amended, provides in pertinent part:

No such incumbent electric utility shall transfer to any person any ownership or control of, or any responsibility to operate, any portion of any transmission system located in the Commonwealth prior to July 1, 2004, and without obtaining, following notice and hearing, the prior approval of the Commission, as hereinafter

provided. However, each incumbent electric utility shall file an application for approval pursuant to this section by July 1, 2003, and shall transfer management and control of its transmission assets to a regional transmission entity by January 1, 2005, subject to Commission approval as provided in this section.

In addition, § 56-579 F of the Restructuring Act was amended by the 2003 General Assembly with the addition of the following:

Any request to the Commission for approval of such transfer of ownership or control of or responsibility for transmission facilities shall include a study of the comparative costs and benefits thereof, which study shall analyze the economic effects of the transfer on consumers, including the effects of transmission congestion costs. The Commission may approve such a transfer if it finds, after notice and hearing, that the transfer satisfies the conditions contained in this section.

Pursuant to § 56-579 A 2 of the Restructuring Act, the Commission developed and established rules and regulations under which incumbent utilities owning, operating, controlling, or having an entitlement to transmission capacity within the Commonwealth may transfer all or part of such control, ownership, or responsibility to an RTE, 20 VAC 5-320-10 et seq. ("RTE Rules").¹ The RTE Rules establish elements of an RTE structure essential to the public interest and which are to be considered by the Commission in determining whether to authorize transfer of control of incumbent electric utilities' transmission assets to RTEs. The RTE Rules require the examination of, among other things, an RTE's reliability practices, pricing and access policies, and independent governance. The Application, therefore, must be considered pursuant to the directives set forth in the Restructuring Act and must comply with the RTE Rules.

AEP-VA now seeks approval of the transfer of control of its transmission facilities to PJM Interconnection, LLC ("PJM"), an existing regional transmission organization ("RTO")²

¹ Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: In the matter concerning participation of incumbent electric utilities in regional transmission entities, Case No. PUE-1999-00349, 2000 S.C.C. Ann. Rept. 430.

² The phrases Regional Transmission Entity or RTE and Regional Transmission Organization or RTO may be used interchangeably.

with day-ahead and real-time markets for energy³ and ancillary services.⁴ The history of this proceeding is extensive. The Company filed with the Commission its original application to join an RTE on October 16, 2000. Since AEP-VA's original application was filed with the Commission, numerous significant events have occurred at both the state and federal level. These events have resulted in delays in the approval of the transfer of control of the transmission systems of both AEP-VA and Virginia Electric and Power Company d/b/a Dominion Virginia Power ("Dominion Virginia Power") to an RTE.

The Company's original application sought approval from this Commission to transfer the operational and functional control of its transmission facilities to the Alliance RTO, an RTO that was to be created pursuant to federal regulations issued by the Federal Energy Regulatory Commission ("FERC").⁵ The FERC issued a number of rulings in the Alliance RTO proceedings. On July 27, 2001, this Commission by order suspended the original procedural schedule based on anticipated filings by the Alliance Companies at the FERC. After over two years of consideration, including an initial ruling conditionally approving the Alliance RTO, the FERC disapproved the Alliance RTO on December 20, 2001, and dismissed in whole the

³ PJM's energy market, which also serves as the basis for PJM's congestion management system, utilizes Locational Marginal Pricing ("LMP").

⁴ The following transmission owners are members of PJM: Allegheny Electric Cooperative, Inc.; Allegheny Power System; Atlantic City Electric Company; Baltimore Gas & Electric Company; Commonwealth Edison Company ("ComEd"); Delmarva Power & Light Company; Jersey Central Power & Light Company; Metropolitan Edison Company; PECO Energy Company; Pennsylvania Electric Company; PPL Electric Utilities Corporation; Potomac Electric Power Company; Public Service Electric & Gas Company; and UGI Utilities, Inc. These transmission owning companies provide service in the states of Delaware, Illinois, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia and in the District of Columbia.

⁵ Alliance Companies, et al., Docket Nos. ER99-3144-003, ER99-3144-004 and ER99-3144-005. The proposed Alliance RTO was to consist of the following member companies: American Electric Power Service Corporation ("AEP Service Corp."); Consumers Energy Company; ComEd; The Dayton Power and Light Company ("Dayton Power"); The Detroit Edison Company; FirstEnergy Corp. on behalf of the Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and the Toledo Edison Company; the Northern Indiana Public Service Company; and Dominion Virginia Power (collectively the "Alliance Companies"). The proposed Alliance RTO was to include incumbent electric utilities who provide service in the states of Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio, Pennsylvania, North Carolina, Tennessee, Virginia, and West Virginia.

Alliance Companies' proposal.⁶ On January 29, 2002, because of the FERC's ruling that dismissed the Alliance RTO proposal, this Commission issued an order denying a motion to reestablish a procedural schedule in AEP-VA's and Dominion Virginia Power's RTE dockets.

On April 25, 2002, the FERC issued an order directing the Alliance Companies to make compliance filings identifying which RTO they planned to join and stating whether their participation would be collective or individual.⁷ On May 28, 2002, American Electric Power Corporation ("AEP") made a compliance filing with FERC on behalf of its operating companies.⁸ In its filing AEP stated that it had entered into a Memorandum of Understanding with PJM on May 7, 2002, indicating its intent to participate in PJM either individually or in conjunction with other Alliance Companies.⁹ On July 31, 2002, the FERC issued an order conditionally accepting AEP's choice to join PJM.¹⁰

Significantly, also on July 31, 2002, the FERC issued a notice of proposed rulemaking to establish a national Standard Market Design ("SMD") for wholesale electricity markets ("SMD

⁶ Alliance Companies, et al., 97 FERC ¶ 61,327 (2001). In its Order dismissing the Alliance Companies' application, the FERC found the proposed Alliance did not comply with key requirements of the FERC's Order 2000.

⁷ Alliance Companies, et al., 99 FERC ¶ 61,105 (2002).

⁸ Alliance Companies, et al., Docket No. EL02-65-005. AEP's operating companies include Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company. The other Alliance Companies made compliance filings on or about May 28, 2002, as well.

⁹ To supplement its May 28, 2002, filing, on June 25, 2002, in Alliance Companies, et al., Docket No. EL02-65-008, AEP, ComEd, and Illinois Power Company (collectively, the "participating companies"), filed a Memorandum of Understanding among and between PJM, National Grid, and the participating companies. On July 15, 2002, in Alliance Companies, et al., Docket Nos. EL02-65-007 and RT01-88-021, the participating companies, Dayton Power, and Dominion Virginia Power filed an update stating their intent to finalize their agreements to operate collectively or individually under PJM and requesting the FERC to immediately affirm their decisions to join PJM.

¹⁰ Alliance Companies, et al., 100 FERC ¶ 61,137 (2002).

NOPR").¹¹ The SMD NOPR requires, among other things, all public utilities to turn over the operation of their transmission facilities to an Independent Transmission Provider ("ITP").¹²

Following the issuance of the SMD NOPR, AEP took no further formal action to join an RTE until December 3, 2002, when it filed an application at the FERC requesting that its transmission rates be increased at the time it joins PJM ("AEP Transmission Rate Filing").¹³ Then, on December 11, 2002, AEP, on behalf of its operating companies and in conjunction with ComEd, Dayton Power, Dominion Virginia Power, and PJM, filed a request with the FERC asking that certain companies be allowed to participate in PJM as transmission owners ("PJM Expansion Filing").¹⁴ The request further asked that PJM's transmission owners agreements, Operating Agreement, and Open Access Transmission Tariff be modified accordingly.¹⁵

As already stated, AEP-VA filed its current Application with this Commission on December 19, 2002, for approval to participate in PJM. On December 20, 2002, the FERC issued a ruling on PJM's application at the FERC for RTO status granting PJM full RTO status subject to the satisfaction of certain conditions.¹⁶

¹¹ Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, 67 Fed. Reg. 55452 (2002) (to be codified at 18 C.F.R. pt. 35) (proposed July 31, 2002). Virginia Code § 56-579 C provides that the Commission, to the fullest extent permitted under federal law, shall participate in FERC proceedings concerning RTEs. On January 31, 2003, this Commission filed comments on the SMD NOPR.

¹² The SMD NOPR would require each public utility that owns, controls, or operates facilities used for the transmission of electric energy in interstate commerce to: (1) meet the definition of an ITP itself; (2) turn over the operation of its transmission facilities to an RTO that is an ITP; or (3) contract with an ITP to operate the utility's transmission facilities. The FERC stated in the SMD NOPR that it expects most, if not all, public utilities will become members of RTOs.

¹³ American Electric Power Service Corporation, Docket No. ER03-242-000.

¹⁴ New PJM Companies and PJM Interconnection, L.L.C., Docket Nos. ER03-262-000 and ER01-262-001. AEP, ComEd, and Dayton Power seek approval to participate in PJM as transmission owners. Dominion Virginia Power did not seek to participate in PJM as a transmission owner in the December 11, 2002, filing.

¹⁵ The Commission participated at the FERC in both the AEP Transmission Rate Filing and the PJM Expansion Filing.

¹⁶ PJM Interconnection, L.L.C., et al., 101 FERC ¶ 61,345 (2002).

On March 7, 2003, the Commission issued an Order for Notice ("March 7 Order") that, among other things, directed the Company to provide notice to the public of its Application, provided the opportunity for interested persons not already participating in the proceeding to participate, and directed the Company to file certain additional information after the FERC issued a final rule in its SMD NOPR.¹⁷ The March 7 Order stated that the Commission could not fully consider the Application and make a final determination on its merits until the FERC issued a final SMD rule whose impacts on PJM's operations could be evaluated. The March 7 Order also noted:

We find in our initial review of the Application and its compliance with the RTE Rules, that the Application fails to address the issue of acquisition of control of transmission facilities from transmission-owning or prospective transmission-owning members of PJM, as required by 20 VAC 5-320-100 4 g and h of the RTE Rules. In addition, the Application does not provide a detailed description of the Company's facilities that will be subject to PJM's control as required by 20 VAC 5-320-100 9 of the RTE Rules. Therefore, we require AEP-VA to supplement its Application to provide the information required by the RTE Rules, as detailed above, on or before April 15, 2003.¹⁸

The Commission further explained in the March 7 Order that any final SMD rule could directly affect the structure and operations of PJM, and that the SMD NOPR asserts expansive jurisdiction over both the transmission and generation of electricity. Thus, the March 7 Order concluded that the SMD NOPR has far-reaching jurisdictional implications and the potential to alter profoundly the nature of electricity regulation on the federal and state levels.

As noted above, § 56-579 of the Restructuring Act was amended in the 2003 General Assembly session. On November 7, 2003, the Commission entered an Order ("November 7 Order"), which amended the March 7 Order to require the Company to file certain information

¹⁷ In the March 7 Order, the Commission also granted the Company leave to substitute the Application in lieu of its original application filed October 16, 2000, which sought approval to join the now defunct Alliance RTO.

¹⁸ March 7 Order at 10, 11.

by January 9, 2004. Pursuant to the new requirements of § 56-579 of the Restructuring Act that applications include a study of the comparative costs and benefits of a proposed transfer, the November 7 Order required the Company to provide quantifications of relevant cost and benefit information under specific scenarios. The November 7 Order also affirmed the provision of the March 7 Order finding that the Commission would not fully consider the Company's Application until the FERC issues its final rule on SMD. In addition, the November 7 Order explained that in the event that the SMD NOPR was delayed beyond the deadline set forth in § 56-579 of the Restructuring Act, we would reexamine our decision to wait until a final SMD rule was issued.

On December 30, 2003, the Commission entered an Interim Order on Motion for Amendments ("December 30 Order") that, among other things, granted the Company's motion not to delay this proceeding pending a final SMD. The December 30 Order concluded that changed circumstances made it appropriate to revise the March 7 and November 7 Orders. Specifically, the December 30 Order noted that the United States Congress released a draft Conference Report on the Energy Policy Act of 2003, which would have prohibited any SMD rule from taking effect before December 31, 2006. Thus, in light of the prospects that FERC may be prevented by federal law from implementing final SMD rules until January 2007, and that FERC may not proceed with its SMD NOPR in any event, we granted the Company's request that the absence of final SMD rules not delay consideration of its Application.

On January 15, 2004, we issued an Order on Motion that, among other things, established the remaining procedural schedule in this case and scheduled a public hearing on the Company's Application for July 27, 2004.

On January 20, 2004, the Company filed supplemental direct testimony of J. Craig Baker, Senior Vice President – Regulation and Public Policy for AEP Service Corp.¹⁹ Mr. Baker's

¹⁹ AEP-VA submitted the direct testimony of Mr. Baker as Appendix B to its Substitute Application filed on December 19, 2002. Mr. Baker's direct testimony, among other things, explains AEP's plan to transfer functional control of its transmission facilities in its eastern pricing zone to PJM, describes how AEP's plan complies with Virginia law requiring such a transfer, and describes how such plan satisfies the Commission's RTE Rules.

supplemental direct testimony provides background information pertaining to this case, presents a company-specific cost/benefit analysis supporting its request to transfer functional control of its transmission facilities located in Virginia to PJM, and addresses various additional issues raised by prior orders of the Commission. Mr. Baker explains that the centerpiece of the Company's cost/benefit study is a simulated dispatch analysis conducted at AEP's request by Cambridge Energy Research Associates ("CERA") that analyzes the effects of system operational changes associated with AEP's planned participation in PJM. Mr. Baker testifies that depending upon the case being compared to the AEP stand-alone scenario, the net benefit to the Company from 2004-2014 can be expected to be between \$53 million and \$195 million.

On January 20, 2004, the Company also filed the direct testimony of Hoff Stauffer, a Senior Consultant at CERA and a Research Director for the CERA Transmission Advisory Service. Mr. Stauffer states that the purpose of his testimony is to sponsor, on behalf of the Company, the report entitled "Economic Assessment of AEP's Participation in PJM." This report describes AEP's cost/benefit analysis.

On May 24, 2004, the Division of Consumer Counsel of the Office of the Attorney General ("Consumer Counsel") filed the direct testimony of Seth W. Brown, Principal and the Manager of Transmission Services at GDS Associates. Mr. Brown addresses the rate and non-rate impacts on electric ratepayers in Virginia of AEP joining PJM. He discusses the reasonableness of the Company's evidence on the costs and benefits of joining PJM. Mr. Brown states that Consumer Counsel supports Commission approval of the Company's Application to transfer functional control of its transmission facilities to PJM. However, Mr. Brown testifies that such approval should be conditioned upon any combination of mechanisms available to assure that the benefits identified or otherwise realized by the Company do, and that certain costs incurred by the Company do not, in fact, get passed through to Virginia ratepayers. Mr. Brown states that such potential mechanisms include the following items:

- 1.a. Modification of AEP-VA's Definitional Framework for Fuel Expenses to include a sharing, with Virginia ratepayers, of off-

system sales margins that exceed the level currently reflected in the Company's base rates.

- 1.b. At such time as AEP-VA files for a base rate case, the Company shall have the opportunity to recover all net administrative and congestion costs.
2. The Commission should order AEP, in conformance with the applicable PJM procedures, to select a "hold harmless" portfolio of [Financial Transmission Rights ("FTRs")] so as to minimize any "unhedgable congestion" associated with deliveries from its generation and its economic purchases to its network and native load. To the extent that AEP selects FTRs from its generation to hedge potential economic off-system sales, the amount of FTRs available to hedge against congestion costs for AEP's network and native load obligations should not be reduced.
3. Because AEP did not factor into its cost/benefit analysis the deferred RTO integration costs, the Commission should find that such costs are part of AEP's sunk costs of consummating its Central and South West merger and therefore not subject to future recovery from Virginia ratepayers.
4. Because AEP did not factor into its cost/benefit analysis any FERC return-on-equity incentives for joining a FERC-approved RTO, the Commission should condition its approval on AEP-VA not being able to recover from Virginia ratepayers increases in transmission rates due to any such FERC incentives.

On May 24, 2004, the Old Dominion Committee for Fair Utility Rates ("Committee") filed the direct testimony of Ali Al-Jabir, an energy and regulatory consultant with the firm of Brubaker & Associates, Inc. Mr. Al-Jabir addresses the regulatory treatment of the costs and benefits associated with the Company's membership in PJM and the impact of this regulatory treatment on AEP-VA's retail customers. Mr. Al-Jabir states that absent base rate changes pursuant to a petition from the Company, the capped rate provisions of the Restructuring Act preclude the Company's Virginia retail customers from realizing the benefits of the Company's membership in PJM. Mr. Al-Jabir asserts that, conversely, under the Restructuring Act AEP-VA may seek to recover PJM administrative costs and congestion costs without recognizing any offsetting benefits. Thus, Mr. Al-Jabir concludes that the Company's membership in PJM could produce a net increase in costs for capped rate customers. Mr. Al-Jabir states that the Commission should not approve the Application if it would harm Virginia retail customers by

increasing their rates. Mr. Al-Jabir requests that the Commission impose a "hold harmless" condition on any approval, which would require that retail capped rates not be increased solely due to the Company's integration into PJM.

On May 24, 2004, PJM filed the direct testimony of Andrew L. Ott, Executive Director of PJM's Market Services Division. Mr. Ott states that the purpose of his testimony is to provide observations concerning AEP's study of the costs and benefits associated with joining PJM. Mr. Ott testifies that AEP's study and his analysis of that study demonstrate that there are clear and quantifiable net benefits to customers from AEP fully joining PJM. Mr. Ott finds AEP's analysis to be conservative in that it does not fully account for the benefits of an integrated security constrained economic dispatch, which derives efficiencies over and above what can be gained by today's system of bilateral trading largely over the telephone. Mr. Ott also identifies concerns he has with the modeling of AEP's partial integration case, which he believes presents a picture of this scenario that tends to overstate its benefits.

On May 24, 2004, PJM also filed the direct testimony of Robert O. Hinkel, PJM's General Manager of RTO Integration and Coordination. Mr. Hinkel states that his testimony is intended to provide an overview of PJM and its real-time track record in maintaining and improving reliability and encouraging infrastructure development. Mr. Hinkel also addresses the primary benefits that PJM membership will bring to the Company's Virginia customers and to the Commonwealth as a whole. Specifically, Mr. Hinkel's testimony addresses the following topics: RTO functions; the history and mission of PJM; PJM's governance structure; maintenance of short- and long-term reliability of the grid; description of PJM's energy markets; benefits of membership in PJM; interface with the Commission; and costs associated with AEP's partial integration case.

On May 24, 2004, Coral Power, L.L.C. ("Coral"), filed the direct testimony of James J. Cifaratta, Vice President – Assets for Shell Trading Gas & Power. Mr. Cifaratta's responsibilities include managing Coral's Energy Conversion Agreement ("ECA") with Tenaska Virginia Partners, L.P. ("Tenaska"). Mr. Cifaratta states that under the ECA, Coral has the

exclusive right to provide natural gas to Tenaska's 885 MW generating facility in Fluvanna County and has the exclusive right to obtain all of the electric energy generated from that facility. Mr. Cifaratta addresses Coral's support for AEP-VA's Application to join PJM, as originally proposed in the Company's Substitute Application. Mr. Cifaratta discusses his concerns with the impacts resulting from any delay in the participation by AEP's operating companies in PJM's markets. Mr. Cifaratta also describes the additional economic and reliability benefits that the Company's full participation in PJM's markets can provide to Virginia consumers and how Coral can enhance those benefits through its participation in the region's wholesale electric markets.

On May 24, 2004, Dominion Virginia Power filed the direct testimony of William L. Thompson, Director – Electric Transmission Systems Operations Center for Dominion Virginia Power. Mr. Thompson supports the Company's Application to join PJM and explains the importance of AEP-VA's integration into PJM to Dominion Virginia Power's proposal to integrate into PJM. Mr. Thompson testifies that integration of AEP-VA and Dominion Virginia Power into PJM will internalize the transmission seam between these two companies within the PJM market and will enhance reliability for Dominion Virginia Power's customers.

On May 24, 2004, Dominion Virginia Power also filed the direct testimony of Robert B. Stoddard, a Vice President of Charles River Associates, Inc. Mr. Stoddard supports the Company's Application to join PJM. Mr. Stoddard states that the integration of AEP-VA and Dominion Virginia Power into PJM will facilitate economic growth in the Commonwealth. Mr. Stoddard also asserts that AEP-VA's integration into PJM is fundamental to providing the benefits of PJM integration to Dominion Virginia Power's customers. Mr. Stoddard testifies that joint participation in PJM by these two companies will support and enhance contracting between these two parties, will enable AEP-VA and Dominion Virginia Power to buy and sell economy power without having to enter into bilateral contracts, and will make more trades at the margin mutually beneficial by eliminating a pancaked transmission wheeling charge.

On June 25, 2004, the Commission's Staff ("Staff") filed the direct testimony of Cody D. Walker, an Assistant Director in the Commission's Division of Energy Regulation. Mr. Walker's testimony: (1) provides an overview of PJM; (2) discusses whether the Company's Application satisfies the Commission's RTE Rules; (3) discusses whether AEP-VA has any alternatives to joining PJM; (4) discusses the implications of the Company's integration into PJM; and (5) discusses the costs and benefits of AEP-VA's participation in PJM. Mr. Walker states that the Company's request to join PJM sufficiently satisfies the RTE Rules. Mr. Walker asserts that the Company's integration into PJM may have certain negative implications with respect to reliability and that the Staff has reservations about the effectiveness of market monitoring in general. Mr. Walker explains his concern that PJM's LMP pricing could significantly raise rates for AEP-VA's retail customers. Mr. Walker also concludes that PJM represents one of the best, if not the best, available RTO models. In addition, Mr. Walker testifies that the Staff engaged Henwood Energy Services, Inc. ("Henwood"), to provide an independent assessment of the costs and benefits of the Company's and Dominion Virginia Power's proposed integration into PJM. Mr. Walker states that Henwood's assessment finds that the Company's participation in a fully expanded PJM, when viewed from an overall net present value perspective, will produce very slight negative results – approximately two percent of the total costs of serving load. Mr. Walker notes that the cost/benefit analysis submitted by the Company produces an even smaller positive result. Thus, Mr. Walker concludes that, given the extremely complex nature of the models utilized in these studies and the numerous critical assumptions therein, the Staff's and the Company's studies can be viewed as producing the same basic conclusion: AEP-VA's integration into PJM will have a de minimis impact on the Company's net costs and benefits.

Mr. Walker also testifies that, under the Restructuring Act, the public policy of the Commonwealth is that Virginia utilities should transfer functional control of transmission systems to RTEs, and that PJM appears to be the only feasible option that can satisfy the January 1, 2005, statutory target established in the Restructuring Act. Thus, if the Commission determines that the Company should satisfy the Restructuring Act through integration into PJM,

Mr. Walker recommends that AEP-VA's Application be approved with specific conditions attached to such approval. Mr. Walker lists potential conditions for the Commission's consideration, which address: (1) certain reporting requirements for AEP-VA; (2) modification of PJM's curtailment protocols in order to protect native retail load; (3) changes to PJM agreements requiring load serving entities to file a notice at FERC prior to changing from a single load aggregation zone for the establishment of LMP; and (4) retention of the Commission's jurisdiction over any subsequent transfer of operation and control of the Company's transmission facilities by AEP-VA or any other operator. In addition, Mr. Walker testifies that to the extent this proceeding results in a specified flowback of some portion of any economic RTE-related benefits to retail customers as proposed by Consumer Counsel, such flowback should be accomplished through an RTE benefit rate rider credit as opposed to changing AEP-VA's Definitional Framework of Fuel Expenses.

On June 25, 2004, the Staff filed the direct testimony of Mark R. Griffith, a Vice President in the Strategic Consulting and Advisory Services business unit at Henwood. Mr. Griffith analyzes the costs and benefits associated with the Company's Application to join PJM. Mr. Griffith sponsors Henwood's cost/benefit report, which is referenced by Mr. Walker, entitled "Analysis of Costs and Benefits of [Dominion Virginia Power] and AEP Joining PJM" ("Henwood report").²⁰ Mr. Griffith explains how he approached his analysis and presents a summary of his findings.

On June 25, 2004, the Staff also filed the direct testimony of Howard M. Spinner, the Director of the Commission's Division of Economics and Finance. Mr. Spinner addresses key issues surrounding LMP for electric energy as practiced in the energy markets administered by PJM. Mr. Spinner asserts that there are problems with PJM's LMP model as a means for

²⁰ On July 15, 2004, the Staff filed a corrected version of the Henwood report. The Staff notes, however, that the results and conclusions for AEP in the Henwood report submitted by Mr. Griffith on June 25, 2004, are unchanged by the corrected version. Rather, the Staff states that the principal corrections concern the proposed integration of Dominion Virginia Power into PJM.

allocating scarce electrical resources and that there are questions as to the ability of PJM's market monitoring unit to ensure good results. Mr. Spinner also testifies that the reliability implications of the Company's Application appear not to be a decisive factor. Mr. Spinner concludes that, realizing that the Company's integration into PJM at this time will assist it in satisfying the January 1, 2005, legislative target for RTE integration established by the Restructuring Act, and also recognizing that AEP's generating units remain legally connected to the Company's Virginia retail customers, he believes that the Commission could conclude that the Company's Application is in the public interest.

On July 9, 2004, the Company filed the rebuttal testimony of Mr. Baker. Mr. Baker observes that not a single witness in this case recommends that the Commission deny outright the Company's Application. Rather, Mr. Baker states that the issues raised by the testimonies of the Staff and the other parties revolve around whether, and if so how, the Commission should condition its approval of AEP-VA's Application. Mr. Baker argues that the conditions recommended by Consumer Counsel witness Brown and Committee witness Al-Jabir are some or all of the following: unreasonable, unnecessary, unlawful, and unacceptable to AEP-VA. Mr. Baker agrees with Staff witness Walker that AEP's integration into PJM can be expected to have a de minimis effect on the Company's costs and monetary benefits through 2014. Mr. Baker indicates that, with some clarifications and modifications, three of the four proposed conditions recommended by the Staff are reasonable and generally acceptable to AEP-VA. Mr. Baker states that the Company cannot accept the Staff's condition involving changes to PJM agreements requiring load serving entities to file a notice at FERC prior to changing from a single load aggregation zone for the establishment of LMP. Mr. Baker also explains that he disagrees with PJM witness Ott's conclusion that the Company's cost/benefit study understates the benefits that AEP-VA can be expected to realize as a result of AEP joining PJM. Mr. Baker concludes that the Commission should approve the Company's Application with limited, if any, conditions.

A public evidentiary hearing was held on July 27, 2004. Anthony J. Gambardella, Esquire, and James R. Bacha, Esquire, appeared on behalf of AEP-VA. C. Meade Browder, Jr., Esquire, and D. Mathias Roussy, Jr., Esquire, appeared on behalf of Consumer Counsel. Edward L. Petrini, Esquire, appeared on behalf of the Committee. Ralph L. Axselle, Jr., Esquire, Craig A. Glazer, Esquire, and Phillip T. Golden, Esquire, appeared on behalf of PJM. Edward L. Flippen, Esquire, and Michael C. Regulinski, Esquire, appeared on behalf of Dominion Virginia Power. Thomas B. Nicholson, Esquire, appeared on behalf of Coral. James C. Roberts, Esquire, appeared on behalf of Edison Mission Energy, Edison Mission Marketing & Trading, Inc., and Midwest Generation EME, LLC (collectively, "Edison Mission Energy"). Howard W. Dobbins, Esquire, appeared on behalf of the Virginia Municipal League, the Virginia Association of Counties Steering Committee, and the Town of Wytheville (collectively, "VML/VACo"). William H. Chambliss, Esquire, Arlen K. Bolstad, Esquire, Katherine A. Hart, Esquire, and John K. Shumate, Esquire, appeared on behalf of the Staff. Upon agreement of the participants, all of the pre-filed testimony was accepted into the record without cross-examination.

In addition, the Commission received into evidence a Stipulation²¹ executed by the following participants: AEP-VA; the Staff; Consumer Counsel; the Committee; PJM; and Edison Mission Energy.²² The Stipulation recommends that the Commission issue an order approving the Application subject to the terms and conditions contained in the Stipulation. The terms and conditions of the Stipulation address, among other things: (1) the Company's recovery of certain RTE-related costs; (2) the Company's agreement to incorporate an RTE Credit Rider into its Virginia rates, and the conditions upon which such rider will automatically expire; (3) PJM's commitment to initiate a stakeholder process regarding any requests by load serving entities to change from a single load aggregation zone for the establishment of LMP pricing; (4) PJM's

²¹ Exh. 2. The Stipulation is attached to this Order Granting Approval.

²² At the hearing, counsel for Dominion Virginia Power, counsel for Coral, and counsel for VML/VACO each stated that they did not object to the Stipulation.

agreement to implement certain curtailment protocols designed to protect the Company's retail and wholesale customers for which AEP has a generation capacity obligation so long as AEP has maintained adequate generation capacity in accordance with applicable requirements; (5) certain reporting requirements for the Company, which shall cease with the filing of its report in calendar year 2007 unless each Virginia incumbent electric utility that is a member of PJM as of September 30, 2007, is required to file reports containing similar information after 2007; and (6) certain reporting requirements for PJM, which shall end in 2010.

Two public witnesses testified at the hearing. The first public witness was Irene E. Leech of Elliston. Ms. Leech presented oral testimony and provided a written statement. Ms. Leech is a faculty member at Virginia Polytechnic Institute and State University teaching consumer affairs, is part of a National Science Foundation research project dealing with the electricity system, is President of the Virginia Citizens Consumer Council, and is a Vice President of the Consumer Federation of America. Ms. Leech has been served by Craig-Botetourt Electric Cooperative ("Craig-Botetourt") for the last 20 years and testified at the hearing as a private citizen. Ms. Leech is concerned that Craig-Botetourt, which is a wholesale customer of AEP-VA and not part of AEP-VA's native load, will, by virtue of the expiration of the wholesale power contract between AEP-VA and Craig-Botetourt, be immediately exposed to multiple cost increases and will receive none of the benefits, should any exist. Ms. Leech stated that if this market experiment does not work, by voluntarily allowing AEP-VA to join PJM, Virginia will cede all authority for changes to the federal government and the Company, and will not even be able to tell its citizens "we tried to protect you." Ms. Leech indicated that rates for consumers in southwest Virginia should be expected to increase. In addition, Ms. Leech is concerned about the diminished ability of consumer representatives to participate in matters the purview of which would be transferred to PJM and to the FERC, the disincentives in PJM for construction of new transmission, and the loss of transmission reliability. Ms. Leech concluded that it is not in the public interest to transfer the Company's transmission assets to PJM at this time.

The second public witness was Urchie B. Ellis of Richmond. Mr. Ellis is a retired lawyer, is a customer of Dominion Virginia Power, and was representing himself. Mr. Ellis stated that the instant case could impact a pending proceeding in which Dominion Virginia Power has sought Commission authority to join PJM. Mr. Ellis explained that he heard the Stipulation with shock and distress, and that he hopes the Commission will reject it. Mr. Ellis does not see anything in the Stipulation that benefits the residential public. Mr. Ellis believes that the Stipulation gives PJM carte blanche authority to cut-off power to Virginia at any time. Mr. Ellis stated that the current grid system has been functioning for years without failure, and that he wants somebody who is going to protect Virginia making the decisions. Mr. Ellis sees no reason to take the risk or to pay the expense to join PJM. In addition, Mr. Ellis finds nothing in the Stipulation guaranteeing that the Company's customers are going to continue to receive their existing low rates. Mr. Ellis sees no reason why Virginia should run the risk that rates will be increased. Mr. Ellis believes that there is great risk to the general public, and that Virginia consumers have the best protection, as to adequacy of service and as to rates, with continued maximum regulation by the Commission. Mr. Ellis concluded that the public interest is not served by the Application at this time.

On August 2, 2004, the Commission issued an Order Requesting Comments, which proposed to modify ¶ 6(c) of the Stipulation to read as follows: "The foregoing curtailment protocols shall apply except in extraordinary circumstances such as where load shedding would be necessary to prevent isolation of facilities within the Eastern Interconnection, to prevent voltage collapse, or in order to restore frequency following a system collapse. This paragraph shall be implemented consistent with North American Electric Reliability Council and applicable reliability council standards." The following participants subsequently filed comments indicating that they did not object to the proposed modification: AEP-VA; Consumer Counsel; the Committee; PJM; Edison Mission Energy; VML/VACo; Coral; and the Staff.

NOW THE COMMISSION, having considered the record, the pleadings, and the applicable law, is of the opinion and finds as follows. We modify ¶ 6(c) of the Stipulation as

proposed in our August 2, 2004, Order Requesting Comments. We approve the Company's Application to transfer functional and operational control of its transmission facilities to PJM, subject to the terms and conditions contained in the Stipulation as thus modified.

We recognize that there is testimony raising concerns over the integration of AEP-VA into PJM. Those concerns include, for example: (1) PJM's LMP pricing could significantly raise rates to ratepayers in southwest Virginia (Walker, Exh. 6 at 44-45; Spinner, Exh. 6 at 8); (2) some customers may be adversely impacted by changes in how transmission costs are allocated and recovered (Walker, Exh. 6 at 15); (3) any breakdown in communication within PJM could have significant implications for reliability (Walker, Exh. 6 at 31); and (4) the Staff expressed reservations about the effectiveness of market monitoring in general (Walker, Exh. 6 at 27; Spinner, Exh. 6 at 33-51, 59).

Section 56-579 A 1 of the Restructuring Act, however, requires that an incumbent electric utility "shall transfer management and control of its transmission assets to a regional transmission entity by January 1, 2005, subject to Commission approval as provided in this section" (emphasis added). Accordingly, it is the policy of this Commonwealth, as directed by the General Assembly, that incumbent electric utilities shall transfer management and control of transmission assets to an RTE by New Year's Day 2005. In this regard, we agree with Staff witness Walker that PJM represents one of the best, if not the best, available RTE models and is the only feasible option at this time for AEP-VA to satisfy the requirements of the Restructuring Act. Walker, Exh. 6 at 27, 45-46.

In addition, § 56-579 F of the Restructuring Act provides as follows:

Any request to the Commission for approval of such transfer of ownership or control of or responsibility for transmission facilities shall include a study of the comparative costs and benefits thereof, which study shall analyze the economic effects of the transfer on consumers, including the effects of transmission congestion costs. The Commission may approve such a transfer if it finds, after notice and hearing, that the transfer satisfies the conditions contained in this section.

This statute does not include an express standard upon which the Commission is to approve or to disapprove the Application based on the results of a cost/benefit study. The statute does not make a positive net benefit finding a prerequisite for approval of the Application. Rather, there may be some implication that the Commission should reject the Application if the cost/benefit study shows a significant detriment. In contrast, the Restructuring Act includes an express requirement that incumbent electric utilities transfer management and control of transmission assets to an RTE by January 1, 2005, subject to Commission approval. Va. Code § 56-579 A 1. The Company submitted a cost/benefit study pursuant to this statute, and the Staff also filed a cost/benefit study. Witnesses for both the Company and the Staff agree that AEP-VA's integration into PJM can be expected to have a de minimis impact on the Company's net costs and benefits. Baker, Exh. 14 at 2; Walker, Exh. 6 at 40. We agree that the cost/benefit studies do not establish a significant economic detriment. Accordingly, based on the evidence in this case and the Stipulation, we find that the Restructuring Act requires our approval of the Application.

A separate provision of the Restructuring Act added by the 2004 Session of the General Assembly (§ 56-582 B (vi)), addresses the Company's ability to increase capped rates for the recovery of certain "incremental costs for transmission or distribution system reliability and compliance with state or federal environmental laws or regulations" Consumer Counsel witness Brown expressed concern that this provision of the Restructuring Act may permit the Company to recover PJM administrative charges and congestion costs from ratepayers, but that there is no mechanism in the Restructuring Act allowing ratepayers to receive any of the cost benefits realized from joining an RTE. Brown, Exh. 12 at 28-30. Similarly, Committee witness Al-Jabir stated that, under the Restructuring Act, AEP-VA could seek to increase its capped rates to recover PJM administrative and congestion costs without recognizing any offsetting benefits – resulting in a net increase in costs for capped rate customers. Al-Jabir, Exh. 11 at 3.

In this regard, we note that ¶ 4 of the Stipulation provides an RTE Credit Rider to eligible Virginia retail customers. This rate credit does not protect consumers from the impacts of LMP

pricing or from changes in the allocation and recovery of transmission costs. Rather, Consumer Counsel explained at the hearing that the RTE Credit Rider reflects approximately one-half of the net benefits projected by the Company in its cost/benefit analysis. Browder, Tr. 92-94. Under this provision of the Stipulation, a retail customer using an average of 1,200 kWh per month would receive a maximum monthly credit of \$0.20. Stipulation, Attachment 1; Bolstad, Tr. 75-76. The RTE Credit Rider extends through 2010, unless such rider automatically expires upon the occurrence of certain events enumerated in the Stipulation; one of those events is a base rate change resulting from a base rate case filed by AEP-VA. In a related provision of the Stipulation, ¶ 1 therein provides that the Company will only seek to recover certain PJM administrative costs, congestion costs, and ancillary service costs through a base rate case, i.e., not through § 56-582 B (vi) of the Restructuring Act. Furthermore, ¶ 3 of the Stipulation states that certain RTE benefits (off-system sales profits and financial transmission rights revenues) will be considered in any base rate case filed by the Company. Section 56-582 C of the Restructuring Act only permits a base rate case if such is initiated by AEP-VA, and this is not (nor could it be) changed by the Stipulation. Accordingly, the Company retains the statutory right to seek an increase in base rates if, for example, it finds that it is experiencing net costs not contemplated in the development of the Stipulation.

Finally, Mr. Ellis asks the Commission to ensure that the public interest is being served by the Application at this time. Ellis, Tr. 112. In this regard, we note that § 56-579 of the Restructuring Act – unlike other provisions of Title 56 of the Code – does not explicitly provide the Commission with a general grant of broad discretion to find that any such transfer is in the public interest. Rather, § 56-579 A 2 directs the Commission to develop rules and regulations under which the incumbent electric utility may transfer control, ownership, or responsibility of transmission capacity to an RTE, upon such terms and conditions that the Commission determines will, among other things, "[g]enerally promote the public interest." As discussed above, the Commission developed the RTE Rules as required by this statute; the RTE Rules establish elements of an RTE structure essential to the public interest. The RTE Rules require

the examination of, for example, an RTE's reliability practices, pricing and access policies, and independent governance. We agree with Staff witness Walker that the Company's request to join PJM sufficiently satisfies the RTE Rules.

We find that the Company's request to transfer functional and operational control of its transmission facilities to PJM, subject to the terms and conditions contained in the Stipulation as modified herein, satisfies the RTE Rules and the directives set forth in the Restructuring Act.

Accordingly, IT IS ORDERED THAT:

(1) Paragraph 6(c) of the Stipulation shall be modified to read as follows: "The foregoing curtailment protocols shall apply except in extraordinary circumstances such as where load shedding would be necessary to prevent isolation of facilities within the Eastern Interconnection, to prevent voltage collapse, or in order to restore frequency following a system collapse. This paragraph shall be implemented consistent with North American Electric Reliability Council and applicable reliability council standards."

(2) The Stipulation as modified in Ordering Paragraph (1), above, is made part of this Order Granting Approval, and the parties thereto shall comply with its provisions.

(3) AEP-VA's Application to transfer functional and operational control of its transmission facilities to PJM is hereby approved, subject to the terms and conditions contained in the Stipulation as modified in Ordering Paragraph (1), above.

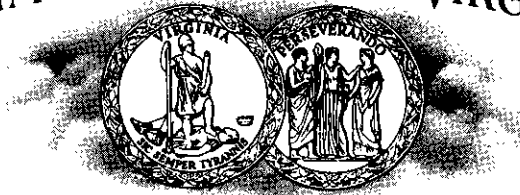
(4) Consistent with the recommendation in ¶ 16 of the Stipulation, the Clerk of the Commission shall send an attested copy of this Order Granting Approval, including the attachment Stipulation, to the Secretary of the Federal Energy Regulation Commission in relation to FERC Docket No. ER03-262-0009.

(5) This case is continued generally.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the State Corporation Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219.

COMMONWEALTH OF VIRGINIA

OFFICE OF THE GENERAL COUNSEL
P.O. Box 1197
Richmond, Virginia 23218-1197



Telephone Number (804) 371-9671
Facsimile Number (804) 371-9240
Facsimile Number (804) 371-9549

STATE CORPORATION COMMISSION

July 28, 2004

BY HAND

Hon. Joel H. Peck, Clerk
State Corporation Commission
c/o Document Control Center
Tyler Building, First Floor
1300 East Main Street
Richmond, Virginia 23219

2004 JUL 28 PM 4:00

RE: Case No. PUE-2000-00550, Commonwealth of Virginia ex rel. State Corporation Commission Ex Parte: In the matter concerning the Application of Appalachian Power Company d/b/a American Electric Power-Virginia for approval to transfer functional and operational control of certain transmission facilities to a regional transmission entity

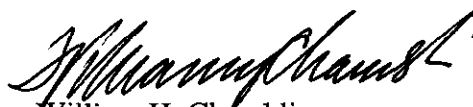
Dear Mr. Peck:

During yesterday's hearing in Case No. PUE-2000-00550, several parties offered the attached Stipulation to the Commission as a full and fair resolution of the pending issues among themselves. The signatories included the applicant--Appalachian Power Company, d/b/a/American Electric Power--; the Staff of the State Corporation Commission; the Division of Consumer Counsel of the Office of the Attorney General; the Old Dominion Committee for Fair Utility Rates; PJM Interconnection, LLC; and Edison Mission Energy, Edison Mission Marketing & Trading, Inc., and Midwest Generation EME, LLC.

The signatories have agreed that a copy of the Stipulation should be filed with the record herein and made available for immediate public inspection in your office and on the Commission's website.

Thank you for your assistance with these matters.

Very truly,


William H. Chambliss
General Counsel

WHC:nel
Enclosure

Hon. Joel H. Peck, Clerk
July 28, 2004
Page Two

cc: Anthony Gambardella
C. Meade Browder, Jr.
Edward L. Petrini
Ralph L. "Bill" Axselle
James C. Roberts
(all w/o attachment)

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUE-2000-00550

Ex Parte In the matter concerning the
Application of Appalachian Power
Company d/b/a American Electric
Power-Virginia for approval to transfer
Functional and operational control of
certain transmission facilities to a
Regional transmission entity

STIPULATION

The undersigned hereby agree and recommend to the State Corporation Commission ("Commission" or "SCC") that it issue an Order in this matter approving the December 19, 2002 Application of Appalachian Power Company ("APCO" or "Appalachian"), d/b/a American Electric Power, to transfer functional control of its transmission facilities to PJM Interconnection, LLC ("PJM"), pursuant to Section 56-579 of the Virginia Electric Utility Restructuring Act ("Restructuring Act" or "Act") and the Commission's Regulations thereunder, subject to the following terms and conditions:

1. Through December 31, 2010, Appalachian agrees not to seek to recover Schedule 9 PJM Tariff administrative costs ("PJM administrative costs"), Locational Marginal Pricing ("LMP") congestion costs ("congestion costs"), and/or any increased costs for ancillary services, which it incurs as a result of joining PJM, other than through a base rate case. Appalachian further represents, on behalf of American Electric Power ("AEP"), that AEP will not seek FERC approval to defer Virginia's share of such costs of Appalachian. Appalachian also agrees not to seek to recover its share of

RTO development and implementation costs (including related carrying costs), which are currently being deferred on the Company's books in accordance with an Order of the Federal Energy Regulatory Commission ("FERC"), other than through a base rate case. As used throughout this Stipulation, "base rate case" means a rate case in which the total jurisdictional cost of service is at issue.

2. Through December 31, 2010, the non-Appalachian signatories to this Stipulation agree not to seek, or support, Commission approval for the inclusion of off-system sales profits and/or Financial Transmission Right (FTR) revenues, in rates charged to Virginia SCC retail customers, whether by a change in Appalachian's Definitional Framework of Fuel Expenses, or otherwise, other than as a result of a base rate case.
3. The signatories agree that PJM administrative costs, congestion costs, costs for ancillary services, RTO development and implementation costs, off-system sales profits and FTR revenues will be considered in any base rate case filed by Appalachian.
4. Effective January 1, 2005, and ending no later than December 31, 2010, Appalachian agrees to incorporate a separate "RTE Credit" Rider into its Virginia rates. The Rider shall credit to eligible retail Virginia customers, on a cents/kWh basis, as shown on Attachment 1 hereto, the annual dollar amounts shown in column A; provided that beginning January 1 following any year in which Dominion Virginia Power becomes fully integrated into PJM, the Rider shall credit the annual dollar amount shown in Column B:

	A (\$ Millions)	B (\$ Millions)
2005	2.0	3.0
2006	2.0	3.0
2007	2.0	3.0
2008	2.0	2.5
2009	2.0	2.5
2010	2.0	2.5

The Rider will automatically expire upon the occurrence of any of the following events: 1) APCo's base rates change as a result of a base rate case filed by Appalachian; 2) the Virginia General Assembly enacts legislation that is inconsistent with the rate treatment of PJM administrative costs, congestion costs, costs for ancillary services, RTO development and implementation costs, off-system sales profits and FTR revenues provided for within this Stipulation; or 3) the Virginia General Assembly enacts legislation that is inconsistent with the timing and/or the absolute value of the "RTE Credit" provided for in this numbered paragraph.

5. PJM will initiate a stakeholder process to consider revisions to applicable procedures in order to publicly post for a sixty (60) day period prior to implementation, requests by load serving entities seeking to change from a single load aggregation zone for the establishment of LMP pricing and settlement for its load. E-mail list serve notification will be made available to parties in this proceeding requesting such notification and other

interested persons. Nothing in this numbered paragraph precludes any signatory to this Stipulation from taking any position whatsoever in any such stakeholder process.

6. PJM agrees to implement curtailment protocols as follows:

- a. PJM will not direct AEP to curtail either the retail customers of any AEP operating company, including Appalachian, for which AEP has a generation capacity obligation, or the wholesale requirements customers of any AEP operating company, including Appalachian, for which AEP has a generation capacity obligation, for generation capacity deficiencies elsewhere on the PJM system so long as AEP has maintained adequate generation capacity in accordance with applicable requirements. PJM will not direct AEP to shed load for a load serving entity with generation capacity obligations within the AEP footprint for generation capacity deficiencies elsewhere on the PJM system so long as the load serving entity has maintained adequate generation capacity in accordance with applicable requirements.
- b. PJM will not direct AEP to curtail load in any AEP-specific state jurisdiction, including Virginia, being served under PJM firm transmission service, for a transmission system emergency, unless PJM has exercised all other available opportunities to remedy the emergency without curtailing such load.
- c. The foregoing curtailment protocols shall apply except in extraordinary circumstances such as where load shedding would be beneficial to prevent separation from the Eastern Interconnection, prevent voltage collapse or in order to restore frequency following a system collapse.
- d. Nothing in the approval of this application shall alter the Commission's authority over the application of curtailment practices to Appalachian's retail customers.

7. Nothing in this Stipulation or the SCC's approval thereof shall be deemed to alter in any way the existing obligation of Appalachian under the laws of the Commonwealth of Virginia to seek a certificate of public convenience

and necessity prior to commencing to construct an electric generation facility or transmission facilities.

8. By October 1, beginning in 2005, Appalachian agrees to submit a report or reports to the Commission that provide the following information:
 - a. A summary of monthly congestion costs and FTR revenues allocated to the Virginia portion of the Company's service territory, including a description of the method of allocating such costs and revenues. This summary should provide a break down of explicit congestion costs (incurred through *transmission congestion charges*) and discuss the extent to which explicit congestion costs are mitigated through the receipt of FTR or ARR revenue.
 - b. A summary of the Company's monthly capacity and energy transactions with the PJM markets.
 - c. A narrative description of the LMP load aggregation zones designated within AEP, APCo, and the Virginia portion of APCo. This description should describe any change (actual or proposed) in the designation of such zones and the cause of any such change.
 - d. A narrative description of the Company's general approach for requesting or obtaining ARRs or FTRs, the level of ARRs or FTRs requested, and the amount received. This description should describe any change (actual or proposed) in the allocation of ARRs or FTRs to the Company and the cause of any such change.

Unless each Virginia incumbent electric utility that is a member of PJM as of September 30, 2007, is required to file a report(s) containing substantially similar information in calendar years after 2007, APCo's obligation to file such report(s), pursuant to this Stipulation, shall cease with the filing of its report in calendar year 2007. If Appalachian remains obligated to file a report(s) in years subsequent to 2007, pursuant to this Stipulation, then Appalachian agrees to continue to file the above report(s)

so long as all other Virginia incumbent electric utilities that are members of PJM are making similar filings. The signatories understand and agree that Appalachian's 2005 annual report will only cover the period October 1, 2004, through May 31, 2005, while any other required reports will cover the twelve-month period June 1 through the following May 31, to correspond to PJM's FTR allocation/auction cycle.

9. PJM will provide annual reports to the Commission detailing the following information:
 - a. A description of transmission constraints occurring within APCo's Virginia service territory and the events leading up to such constraints. Such description should include an estimate of the congestion costs associated with each event.
 - b. The actual locational marginal prices by bus in APCo's Virginia service territory, including a separate identification of the congestion component of such prices.

Such reports will be provided annually by October 1 beginning in 2005 and ending in 2010.

10. The Parties agree that nothing in this Stipulation changes the Commission's jurisdiction over any subsequent transfer, either by Appalachian or PJM, of the functional control of Appalachian's transmission facilities.
11. The signatories agree that this Stipulation represents a compromise of diverse positions in order to avoid litigation, and a full and fair resolution of Case No. PUE-2000-00550. Except as expressly stated herein, nothing in this Stipulation shall be deemed a waiver of any signatory's rights or arguments regarding the matters provided for in this Stipulation.

12. The signatories to this Stipulation agree that the discussions that produced this Stipulation have been conducted with the explicit understanding that all such discussions shall be privileged and confidential and shall be without prejudice to the position of any signatory in any proceedings or forum.
13. This Stipulation constitutes the entire agreement and understanding among the signatories relating to the subject matter hereof, and supersedes all prior and contemporaneous negotiations, agreements, understandings, representations and warranties, whether oral or written, relating to the subject matter hereof. No changes, modifications, or additions to this Stipulation shall be valid unless the same shall be in writing and signed by the signatories hereto.
14. The signatories agree to seek prompt approval of this Stipulation by the SCC, no more than fifteen (15) days from the date of its submission.
15. In the event that the SCC does not accept the Stipulation in its entirety, then each of the signatories to the Stipulation retains the right to terminate the Stipulation. In the event of such action by the SCC, within five (5) business days, any of the signatories to the Stipulation may give notice exercising its right to terminate the Stipulation; provided, however, that the signatories to the Stipulation may, by unanimous consent, elect to modify the Stipulation to address the issues raised by the SCC. Should the Stipulation terminate, it shall be considered void and have no binding precedential effect, and the signatories to the Stipulation reserve their

rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of the Stipulation.

16. The signatories recommend that the SCC, upon approval of the Stipulation, file the Stipulation with the FERC in Docket No. ER03-262-009.

Executed this 27th day of July, 2004.

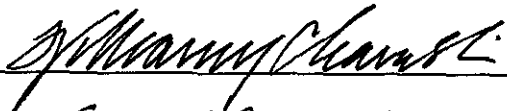
APPALACHIAN POWER COMPANY,
d/b/a American Electric Power

Anthony Lombardella

Title: COUNSEL

Executed this 27 day of July, 2004.

STAFF OF THE STATE
CORPORATION COMMISSION



Title: General Counsel


Executed this 27 day of July, 2004.

DIVISION OF CONSUMER COUNSEL OF
THE OFFICE OF THE ATTORNEY GENERAL

C. M. Brundage, Jr.
Title: SR. ASST. ATTORNEY GENERAL

Executed this 27th day of July, 2004.

OLD DOMINION COMMITTEE FOR FAIR
UTILITY RATES

A handwritten signature in black ink, appearing to read "Edmund J. [unclear]", is written over a horizontal line.

Title: _____

Executed this 27th day of July, 2004.

PJM INTERCONNECTION, LLC

A handwritten signature in cursive script, appearing to read "Craig Glazer", written over a horizontal line.

Craig Glazer
Title: Vice President - Government Policy

Executed this 27th day of July, 2004.

EDISON MISSION ENERGY, EDISON MISSION
MARKETING & TRADING, INC., AND MIDWEST
GENERATION EME, LLC

A handwritten signature in black ink, appearing to read "John D. Smith", written over a horizontal line.

Title: VICE PRESIDENT & ASSOC. GEN. COUNSEL

Appalachian Power Company
RTE Credit
(Cents per kWh)

Year	Total Eligible Retail (GWh)	Paragraph 4, Column A, Annual RTE Credit (\$)	RTE Credit (Cents / kWh)	Paragraph 4, Column B, Annual RTE Credit (\$)	RTE Credit (Cents / kWh)
(1)	(2)	(3)	(4)	(5)	(6)
			(Col 3 / Col 2)		(Col 5 / Col 2)
2005	17,784	2,000,000	0.011	3,000,000	0.017
2006	18,104	2,000,000	0.011	3,000,000	0.017
2007	18,457	2,000,000	0.011	3,000,000	0.016
2008	18,788	2,000,000	0.011	2,500,000	0.013
2009	19,123	2,000,000	0.010	2,500,000	0.013
2010	19,453	2,000,000	0.010	2,500,000	0.013